

FAYETTE COUNTY

West Union, Iowa

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS**

June 30, 2008

FAYETTE COUNTY, IOWA
West Union, Iowa

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FAYETTE COUNTY
West Union, Iowa

OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Gayle Tellin	January 2011	Board of Supervisors
Mike Kennedy	January 2011	Board of Supervisors
Vicki Rowland	January 2009	Board of Supervisors
Larry Popenhagen	January 2009	Auditor
Kyle Jacobsen	January 2011	Treasurer
Karen Ford	January 2011	Recorder
Marty Fisher	January 2009	Sheriff
W. Wayne Saur	January 2011	Attorney
Joe Flores	Appointed	Assessor



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report

To the Officials of Fayette County
West Union, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fayette County, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fayette County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fayette County at June 30, 2008, and the respective changes in financial position and the cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2009 on our consideration of Fayette County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 35 - 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fayette County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

March 19, 2009

Gardiner Thomsen, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Fayette County provides this Management's Discussion and Analysis of Fayette County's annual financial statements. This narrative overview and analysis of the financial activities of Fayette County is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- County governmental funds revenue decreased 1% or approximately \$123,544 from 2007 to 2008. Property taxes decreased approximately \$189,650 and operating grants, contributions & restricted interest increased approximately \$754,615.
- County program expenses were 6% or approximately \$930,706 more in 2008 than in 2007. Roads and transportation expense increased approximately \$515,629.
- The county's net assets increased 2% or approximately \$644,743 at June 30, 2008.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits A and B) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Reporting the County as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services

to residents, administration or general government, interest on long-term debt and other non-program activities. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements begin on Exhibit C and provide detailed information about the most significant funds—not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County establishes many other funds to help it control and manage money for particular purposes.

Most of the County's basic services are accounted for in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page 21.

Supplemental Information

The supplemental information begins on Schedule 1 and provides detailed information about the nonmajor governmental funds and the individual agency funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County's combined net assets were changed, increasing from \$27,301,113 to \$27,945,856. The analysis below focuses on net assets and changes in net assets of government activities.

Net Assets of Governmental Activities

	(Expressed in Thousands)	
	2008	2007
Current and Other Assets	\$10,717	\$10,481
Capital Assets	26,916	26,074
Total Assets	37,633	36,555
Long-Term Debt Outstanding	1,652	1,947
Other Liabilities	8,035	7,307
Total Liabilities	9,687	9,254
Net Assets:		
Invested in Capital Assets, Net of debt	25,264	24,128
Restricted	1,192	1,406
Unrestricted	1,490	1,767
Total Net Assets	\$27,946	\$27,301

Net assets of the County's governmental activities increased by approximately 2%, (from \$27,301,113) the largest portion of the County's net assets is Invested in Capital Assets (infrastructure, buildings and equipment), less the related debt. The debt related to the Investment in Capital Assets is liquidated with sources other than capital assets. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Changes in Net Assets of Governmental Activities

	Year Ended June 30,	
	2008	2007
Program Revenues:		
Charges for service and sales	\$1,598	\$1,581
Operating grants and contributions	5,807	5,053
Capital grants and contributions	1,219	1,294
Property taxes	5,932	6,121
Unrestricted investments earnings	60	75
Other general revenues	1,258	1,873
Total revenues	15,874	15,997
Program Expenses:		
Public safety and legal services	2,732	2,644
Physical health and social services	444	471
Mental health	2,996	2,600
County environment and education	1,190	1,223
Roads and transportation	5,947	5,431
Government services to residents	511	474
Administration or general government	1,042	1,072
Non-program	292	298
Interest on long-term debt	75	85
Total expenses	15,229	14,298
Increase in net assets	645	1,699
Net assets – beginning of year	27,301	25,602
Net assets – end of year	\$27,946	\$27,301

The County's revenue decreased 1%, (\$123,544). The total cost of programs and services increased 6%, (\$930,706), with no new programs added this year. Even with the modest decrease in revenue, the County covered this year's costs and slightly increased the County's net assets.

Governmental Activities

Fayette County decreased the property tax dollars levied for 2008 by 3%. This was a decrease of \$189,183. The reduction was feasible due to higher than anticipated revenue under charges for services for 2007 and continuing in 2008. The balance at the end of 2008 is anticipated to be at a similar level as the end of last year. This fund balance to expenditure ratio will be much better than recent years, but still too low to comfortably accommodate large unanticipated expenditures or unexpected loss of revenue.

Property taxes were decreased \$231,258 in the general fund to the statutory maximum levy allowed after having exceeded that level in 2007. This was possible due to a projected increase of prisoner keep revenue of \$185,000 over the original 2007 budget. This revenue level was expected to continue in 2008. Tax askings in the general supplemental and mental health funds remained about the same with the low balance in the mental health fund being a major concern. There was an increased tax asking in the rural services fund of \$60,000 due to an increase in the funds transferred to the secondary road department.

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As the county completed the year, its governmental funds reported little change in combined fund balance.

The combined ending fund balance of the General and General Supplemental Funds decreased by \$186,727 from 2007 to 2008. This decrease in balance was due to a decrease in property tax revenue and charges for services and increased expenditures.

The Mental Health decreased further to a deficit balance of \$131,627.

The Rural Services Fund balance in decreased \$3,382 from a year ago to \$357,673. This was due to a decrease of property tax revenue and slightly higher expenditures.

The Secondary Road fund ended the 2008 year with a balance of \$736,753. This is lower than the \$961,010 balance one year ago, due to increased road maintenance and capital projects.

BUDGETARY HIGHLIGHTS

The budget was amended on March 10, 2008 with an increase of revenue of \$652,790 and an increase of expenditures of \$173,260. The largest increase in expenditures was in the Roads and Transportation function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the County had \$47.291 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$2.130 million or 4% over last year.

Capital Assets at Year End of Governmental Activities

	(Expressed in Thousands)	
	2008	2007
Land	\$1,123	\$1,123
Buildings	4,574	4,574
Equipment	8,734	8,698
Construction in Progress	1,083	186
Infrastructure	31,598	30,580
Total	<u>\$47,112</u>	<u>\$45,161</u>

This year's major additions include
Law Enforcement Vehicles
Secondary Road Equipment
Infrastructure

\$52
133
1,017

\$1,202

The County had depreciation expense of \$1,354,307 for the year ended June 30, 2008 and total accumulated depreciation as of June 30, 2008 of \$20,196,052.

The County's fiscal year 2008 capital expenditures totaled \$894,317 principally for the continued upgrading of secondary roads and bridges and various conservation projects. The County has no plans to issue additional debt to finance these projects.

Debt Administration

At year end, the County had \$2,066,476 in bonds and other debt compared to \$2,337,179 in bonds and other debt last year as shown below.

Outstanding Debt at Year-End of Governmental Activities

	(Expressed in Thousands)	
	2008	2007
General Obligation Notes	\$1,652	\$1,947
Compensated Absences	415	390
	<u>\$2,067</u>	<u>\$2,337</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$53 million limit.

Other obligations include accrued vacation pay and sick leave. More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The county begins the 2009 fiscal year with an actual fund balance to budgeted expenditure ratio of 17.25%. This is less than the 21.1% one year ago, but still higher than the 14.9% two years ago. Due to this low balance and unexpected expenditures that will be made because of the June, 2008 flood, larger expenditures such as the insurance package will have to be delayed until property tax revenue is received. Increased expenditures in the mental health fund have led to a very low balance. This may be alleviated by a transfer from the general supplemental fund in the 2009 fiscal year, however this solution may make a significant future increase in property taxes necessary. The overall property tax asking for 2009 increased by 3%, but this increase will only maintain the balances at relatively the same low level.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, 114 N. Vine St., West Union, IA.

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$3,371,384
Receivables:	
Property Tax:	
Delinquent	16,822
Succeeding Year	5,920,222
Interest & Penalty On Property Tax	23
Accounts	100,014
Accrued Interest	4,363
Due From Other Governments	465,332
Inventories	759,678
Deposit on Conservation Land	80,000
Capital Assets (Net of Accumulated Depreciation)	26,915,588
TOTAL ASSETS	37,633,426
LIABILITIES	
Accounts Payable	797,835
Accrued Interest Payable	5,375
Salaries & Benefits Payable	231,063
Due To Other Governments	666,599
Deferred Revenue:	
Succeeding Year Property Tax	5,920,222
Long Term Liabilities:	
Portion Due Or Payable Within One Year:	
Capital Lease Purchase Agreement	15,506
General Obligation Bonds	295,000
Compensated Absences	414,804
Portion Due or Payable After One Year:	
Capital Lease Purchase Agreement	16,166
General Obligation Notes	1,325,000
TOTAL LIABILITIES	9,687,570
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	25,263,916
Restricted For:	
Secondary Roads Purposes	598,587
Other Purposes	593,134
Unrestricted	1,490,219
TOTAL NET ASSETS	\$27,945,856

See Notes To Financial Statements

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	Expenses	Program Revenues			Net (Expense) Revenue & Change in Net Assets
		Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest	
FUNCTIONS/PROGRAMS:					
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$2,732,008	\$555,947	\$44,531	\$0	\$(2,131,530)
Physical Health & Social Services	444,573	6,450	187,186	0	(250,937)
Mental Health	2,996,017	276,102	1,652,937	0	(1,066,978)
County Environment & Education	1,189,718	38,780	225,404	40,000	(885,534)
Roads & Transportation	5,946,586	65,912	3,675,646	1,178,563	(1,026,465)
Governmental Services to Residents	511,222	352,159	0	0	(159,063)
Administration	1,041,825	11,238	21,455	0	(1,009,132)
Non - Program	292,179	291,317	0	0	(862)
Interest on Long-Term Debt	74,515	0	0	0	(74,515)
TOTAL	\$15,228,643	\$1,597,905	\$5,807,159	\$1,218,563	(6,605,016)

GENERAL REVENUES:

Property & Other County Tax Levied For:	
General Purposes	5,931,814
Penalties & Interest on Property Tax	61,756
State Tax Credits	383,912
Local Option Sales Tax	607,120
Unrestricted Investment Earnings	60,074
Miscellaneous	191,979
Gain on Disposal of Capital Assets	13,104
TOTAL GENERAL REVENUES	7,249,759

CHANGE IN NET ASSETS	644,743
NET ASSETS, BEGINNING OF YEAR	27,301,113
NET ASSETS, END OF YEAR	\$27,945,856

See Notes To Financial Statements

<u>Special Revenue</u>		
<u>Secondary</u>		
<u>Roads</u>	<u>Nonmajor</u>	<u>Total</u>
\$148,244	\$234,653	\$2,841,513
0	0	16,822
0	0	5,920,222
0	0	23
7,387	965	77,899
0	140	4,363
0	0	32,502
314,348	361	465,332
759,678	0	759,678
<u>\$1,229,657</u>	<u>\$236,119</u>	<u>\$10,118,354</u>
\$318,209	\$5,803	\$656,600
87,261	0	231,063
0	0	17,371
9,005	0	666,599
0	0	5,920,222
78,429	0	138,368
<u>492,904</u>	<u>5,803</u>	<u>7,630,223</u>
759,678	0	759,678
0	0	1,295,016
(22,925)	230,316	433,437
<u>736,753</u>	<u>230,316</u>	<u>2,488,131</u>
<u>\$1,229,657</u>	<u>\$236,119</u>	<u>\$10,118,354</u>

FAYETTE COUNTY
West Union, Iowa

RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total Governmental Fund Balances (pages 11-12)	\$2,488,131
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The costs of assets is \$47,111,640 and the accumulated depreciation is \$20,196,052.	26,915,588
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	138,368
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Deposits made towards the purchase of capital assets are recorded as expenditures in the fund financial statements and as an asset in the Statement of Net Assets.	80,000
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The Internal Service Fund is used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	395,620
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Long-term liabilities, including bonds payable, compensated absences payable and accrued interest payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,071,851)</u>
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Net Assets of Governmental Activities (page 9)	<u>\$27,945,856</u>
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See Notes to Financial Statements

<u>Special Revenue</u>		
<u>Secondary Roads</u>	<u>Nonmajor</u>	<u>Total</u>
\$0	\$0	\$6,547,515
0	0	61,756
3,593,598	38,147	6,381,634
3,988	0	12,138
1,572	15,238	890,214
0	54,445	113,567
140,350	37,787	293,339
3,739,508	145,617	14,300,163
0	59,849	2,614,895
0	0	441,607
0	0	3,008,942
0	28,415	1,178,754
4,732,903	0	4,945,001
0	0	481,348
116,391	0	1,062,389
0	0	5,740
0	0	355,425
827,819	53,909	894,317
5,677,113	142,173	14,988,418
(1,937,605)	3,444	(688,255)
17,804	0	17,804
1,542,228	0	1,742,314
0	0	(1,742,314)
1,560,032	0	17,804
(377,573)	3,444	(670,451)
961,010	226,872	3,005,266
153,316	0	153,316
\$736,753	\$230,316	\$2,488,131

FAYETTE COUNTY
West Union, Iowa

**RECONCILIATION OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds (pages 14-15) \$(670,451)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for Capital Assets	\$1,021,804	
Capital Assets Contributed by the Iowa Department of Transportation	1,178,563	
Contribution from Pheasants Forever, deposit on future purchase	80,000	
Depreciation Expense	<u>(1,354,307)</u>	926,060

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources.

(4,700)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property Taxes	(8,582)	
Other	<u>58,822</u>	50,240

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets. Current year repayments exceeded issuances as follows:

Repaid		294,874
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds as follows:

Compensated Absences	(42,849)	
Interest on Long-Term Debt	<u>910</u>	(41,939)

Inventories in the governmental funds have been recorded as expenditures when paid. However, the statement of activities will report these items as expenditures in the period that the corresponding net asset is exhausted.

153,316

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(62,657)

Change in Net Assets of Governmental Activities (page 10)

\$644,743

See Notes to Financial Statements

**FAYETTE COUNTY
West Union, Iowa****STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2008**

	Internal Service Employee Group Health
ASSETS	
Cash & Cash Equivalents	\$514,740
Receivables	
Accounts	22,115
TOTAL ASSETS	\$536,855
LIABILITIES	
Accounts Payable	\$141,235
NET ASSETS	
Unrestricted	\$395,620

See Notes To Financial Statements

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND
Year Ended June 30, 2008

	Internal Service Employee Group Health
OPERATING REVENUES:	
Reimbursements From Operating Funds	\$871,076
Reimbursements From Employees	233,975
Insurance Reimbursements	249,377
Total Operating Revenues	<u>1,354,428</u>
OPERATING EXPENSES:	
Medical Claims	1,189,041
Insurance Premiums	133,810
Administrative Fees	88,354
Miscellaneous	5,880
Total Operating Expenses	<u>1,417,085</u>
Net Loss	(62,657)
Net Assets Beginning of Year	<u>458,277</u>
Net Assets End of Year	<u><u>\$395,620</u></u>

See Notes To Financial Statements

FAYETTE COUNTY
West Union, Iowa

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2008

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received From Operating Fund Reimbursements	\$871,076
Cash Received From Employees & Others	481,906
Cash Paid To Suppliers For Services	<u>(1,584,360)</u>
Net Cash Used in Operating Activities	<u>(231,378)</u>
 Cash & Cash Equivalents at Beginning of Year	 <u>746,118</u>
 Cash & Cash Equivalents at End of Year	 <u><u>\$514,740</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating Loss	\$(62,657)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Increase In Accounts Receivable	(1,447)
Decrease In Accounts Payable	<u>(167,274)</u>
Net Cash Used in Operating Activities	<u><u>\$(231,378)</u></u>

See Notes To Financial Statements

**FAYETTE COUNTY
West Union, Iowa****STATEMENT OF FIDUCIARY ASSETS
AGENCY FUNDS
June 30, 2008****ASSETS**

Cash & Pooled Investments:	
County Treasurer	\$993,268
Other County Officials	335,907
Receivables:	
Property Tax:	
Delinquent	126
Succeeding Year	15,148,462
Accounts	37,691
Accrued Interest	320
TOTAL ASSETS	16,515,774

LIABILITIES

Accounts Payable	19,421
Salaries & Benefits Payable	13,285
Due To Other Governments	16,107,497
Trusts Payable	352,894
Compensated Absences	22,677
TOTAL LIABILITIES	16,515,774

NET ASSETS	\$0
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See Notes To Financial Statements

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Fayette County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Fayette County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Fayette County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component unit is an entity which is legally separate from the County, but is so intertwined with the County that it is, in substance, the same as the County. It is reported as part of the County and blended into the appropriate funds.

A drainage district has been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although this district is legally separate from the County, it is controlled, managed and supervised by the Fayette County Board of Supervisors. The drainage district is reported as a Special Revenue Fund. Financial information of this individual drainage district can be obtained from the Fayette County Auditor's office.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Fayette County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Fayette County Assessor's Conference Board, Fayette County Emergency Management Commission, and Fayette County Joint E911 Service Board. Financial transactions of these organizations are included in the

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the secondary road construction and maintenance.

Additionally the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply the cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board Statements of Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for the Internal Service Fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on a cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the day of purchase, they have a maturity date no longer than three months.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2007.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable, but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2008, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets acquired after July 1, 1980 (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, Buildings and Improvements	25,000
Equipment and Vehicles	5,000

Capital assets and equipment of the County is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Improvements	40 – 65
Infrastructure	15 – 65
Equipment and Vehicles	2 – 20

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statement represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-Term Liabilities – In the government-wide financial statements and the proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets – The net assets of the Internal Service, Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

During the year ended June 30, 2008, disbursements did not exceed the amount budgeted, however, disbursements in certain departments exceeded the amounts appropriated.

Notes to Financial Statements (Continued)

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue: Mental Health	\$17,371
General Fund	Agency: Auto License and Use Tax	15,131
		<u>\$32,502</u>

These balances resulted from the time lag between the dates that inter-fund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 4 : Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer To	Transfer From	Amount
Special Revenue: Mental Health	General Supplemental	\$199,915
Secondary Roads	General Basic	127,150
Secondary Roads	Special Revenue: Rural Services	1,415,078
Total		<u>\$1,742,143</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to Financial Statements (Continued)

Note 5 : Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$1,123,224	\$0	\$0	\$1,123,224
Construction in Progress	186,476	1,082,693	186,476	1,082,693
Total Capital Assets Not Being Depreciated	1,309,700	1,082,693	186,476	2,205,917
Capital Assets Being Depreciated:				
Buildings	4,573,523	0	0	4,573,523
Machinery and Equipment	8,697,555	286,913	249,992	8,734,476
Infrastructure	30,580,485	1,017,239	0	31,597,724
Total Capital Assets Being Depreciated	43,581,563	1,304,152	249,992	44,905,723
Less Accumulated Depreciation for:				
Buildings	726,172	85,497	0	811,669
Machinery and Equipment	6,663,503	427,402	245,292	6,845,613
Infrastructure	11,697,362	841,408	0	12,538,770
Total Accumulated Depreciation	19,087,037	1,354,307	245,292	20,196,052
Total Capital Assets Being Depreciated, Net	24,764,526	(50,155)	4,700	24,709,671
Governmental Activities Capital Assets, Net	\$26,074,226	\$1,032,538	\$191,176	\$26,915,588
Depreciation expense was charged to the following functions:				
Public Safety and Legal Services				\$131,718
Mental Health				950
County Environment and Education				10,043
Roads and Transportation				1,202,287
Administration				9,309
Total Depreciation Expense – Governmental Activities				\$1,354,307

Notes to Financial Statements (Continued)

Note 6 : Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$1,898
Special Revenue:		
Mental Health	Services	655,696
Secondary Roads		9,005
		<u>666,599</u>
Total for Governmental Funds		
Agency:		
Agricultural Extension	Collections	\$167,268
Assessor		214,146
Schools		10,408,519
Community Colleges		432,004
Corporations		3,787,679
Auto License & Use Tax		359,282
All Others		738,599
		<u>\$16,107,497</u>
Total for Agency Funds		

Note 7: Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2008, is as follows:

	Compensated Absences	General Obligation Notes	Capital Lease Purchase Agreement	Total
Balance – Beginning of Year	\$371,955	\$1,900,000	\$46,546	\$2,318,501
Additions	42,849	0	0	42,849
Reductions	0	280,000	14,874	294,874
Balance – End of Year	<u>\$414,804</u>	<u>\$1,620,000</u>	<u>\$31,672</u>	<u>\$2,066,476</u>
Due Within One Year	<u>\$414,804</u>	<u>\$295,000</u>	<u>\$15,506</u>	<u>\$725,310</u>

Note Payable

During the year ended June 30, 2003, the County issued \$3,300,000 of General Obligation County Law Enforcement Center Notes, Series 2002. The notes were issued to pay the cost of constructing, furnishing and equipping a new Law Enforcement Center. Interest is due semi-annually on December 1 and June 1 at rates of 3.25% to 4.00% over the life of the notes. Principal payments are due annually, beginning on June 1, 2003 and ending on June 1, 2013.

Notes to Financial Statements (Continued)

Note 7: Changes in Long-Term Debt (Continued)

A summary of the County's June 30, 2008 general obligation note indebtedness is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2009	3.9%	\$295,000	\$64,505	\$359,505
2010	4.0%	310,000	53,000	363,000
2011	4.0%	325,000	40,600	365,600
2012	4.0%	335,000	27,600	362,600
2013	4.0%	355,000	14,200	369,200
		<u>\$1,620,000</u>	<u>\$199,905</u>	<u>\$1,819,905</u>

During the year ended June 30, 2008, the County retired \$280,000 of general obligation notes.

Capital Lease Purchase Agreement

During the fiscal year ended June 30, 2005, the County entered into a capital lease purchase agreement to lease a John Deere Tractor with a Diamond Wet Blade Mower. The following is a schedule of the future minimum lease payments, including interest of 4.25% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2008:

Year Ending June 30,	
2009	\$16,852
2010	16,853
Total Minimum Lease Payments	<u>33,705</u>
Less: Amount Representing Interest	<u>(2,033)</u>
Present Value of Net Minimum Lease Payments	<u>\$31,672</u>

Payments under this capital lease purchase agreement totaled \$16,852 for the year ended June 30, 2008.

Note 8: Closure and Postclosure Care Costs

Fayette County is a member of the Fayette County Solid Waste Management Commission. The agency is an inter-governmental agency, established in accordance with the provisions of Chapter 28E of the State Code of Iowa (Inter-governmental Cooperation Agreement). The purpose of the Commission is to provide for the economic disposal and or recycling of all solid waste produced or generated within each member city, town, and the unincorporated portion of Fayette County, comprising the municipalities. In performing its duties, the Commission may contract with and expend funds from federal, state, and local agencies and private individuals and corporations.

Notes to Financial Statements (Continued)

Note 8: Closure and Postclosure Care Costs (Continued)

State and Federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, state laws require the Commission to submit a closure and postclosure plan detailing the schedule for and the methods by which the operator will meet the conditions for proper closure and postclosure. As of June 30, 2008, the estimated liability associated with closure and postclosure care costs had been determined. Also based on regulations, the financial assurance mechanism has been established.

Note 9: Pension and Retirement Benefits

Fayette County is a member in the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the County is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$308,058, \$289,168 and \$286,298, respectively, equal to the required contributions for each year.

Note 10: Risk Management

Fayette County is a member of the Heartland Risk Pool as allowed by Chapter 331.301 of the Code of Iowa. The Heartland Risk Pool (Pool) is a local government risk-sharing pool whose 10 members include various governmental entities throughout the State of Iowa. The Pool was formed July 1, 1987 for the purpose of providing a voluntary self-insured program to counties in the State of Iowa. The program is designed to provide members a greatly improved loss control program whose purpose is to reduce claims and accidents; aid through sound and equitable claim management practices to reduce costs; and provide the required and/or desired reinsurance at a discount, based on volume and lower risk exposure. The Pool provides coverage and protection in the following categories: workers' compensation, automobile liability, automobile physical damage, law enforcement, public official errors and omissions, and crime lines of business on an occurrence basis. General liability coverage is written on a claims-made basis. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

Notes to Financial Statements (Continued)

Note 10: Risk Management (Continued)

The Pool also provides property, inland marine, boiler, public officials errors and omissions, law enforcement liability, and business income and extra expense coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contribution to the Pool for the year ended June 30, 2008 was \$455,244.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains automobile liability, general liability, public officials liability and law enforcement legal liability. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$6,000,000 per claim. Workers' compensation claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,000,000. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. Property automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2008, no liability has been recorded in the County's financial statements. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage in any of the past three fiscal years.

Members agree to continue membership in the pool for a period of not less than three full years. Subsequent to this initial term, the member may withdraw at the end of the third fiscal year of any three-year term, only after at least 60 days prior written notice. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, the member is refunded 100% of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal and the member's proportionate share of any capital deficiency.

The County also carries commercial insurance purchased from another insurer for coverage associated with the employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. The County assumes responsibility for employees blanket bond claims in excess of \$20,000 per employee, with the exception of the Treasurer which is in excess of \$50,000. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Notes to Financial Statements (Continued)

Note 11: Employee Health Insurance Plan

The Internal Service Employee Group Health Fund, was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administrated through a Service Agreement with Wellmark. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitations of \$20,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative service agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2008 was \$871,076.

Note 12: Commitments and Contingencies

The County participates in a number of federally assisted grant programs. The programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, County officials do not believe that such amounts would be significant.

During the year ending June 30, 2008, the Iowa Heritage Foundation agreed to purchase land on behalf of the Conservation department. Conservation paid \$40,000 to the Iowa Heritage Foundation, and Pheasants Forever paid \$40,000 to the Foundation on behalf of Conservation. Both the payment and the contribution have been recorded as a deposit on the future purchase. Subsequently, the Conservation department has paid additional amounts to the foundation. If the land is not paid in full by March of 2010, a real estate contract will be established, at which point the Conservation department will take title to the land and incur debt for the remaining amount.

Note 13: Related Party Transactions

The County had business transactions between the County and the County officials totaling \$326,640 during the year ended June 30, 2008.

Note 14: Financial Condition

The Special Revenue Funds, Mental Health and Commissary Profit had deficit fund balances of \$131,627 and \$714, respectively at June 30, 2008 and 2007.

FAYETTE COUNTY
West Union, Iowa

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2008**

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS:						
Property & Other County Tax	\$6,544,987	\$0	\$6,544,987	\$6,517,643	\$6,517,643	\$27,344
Interest & Penalty on Property Tax	61,786	0	61,786	53,700	53,700	8,086
Intergovernmental	6,372,152	0	6,372,152	5,679,747	6,244,397	127,755
Licenses & Permits	12,058	0	12,058	11,625	11,300	758
Charges for Services	925,268	0	925,268	810,875	869,920	55,348
Use of Money & Property	120,398	0	120,398	77,705	121,396	(998)
Miscellaneous	300,090	0	300,090	564,225	549,954	(249,864)
Total Receipts	14,336,739	0	14,336,739	13,715,520	14,368,310	(31,571)
DISBURSEMENTS:						
Public Safety & Legal Services	2,597,133	0	2,597,133	2,528,546	2,646,834	49,701
Physical Health & Social Services	442,524	0	442,524	549,368	497,309	54,785
Mental Health	2,702,713	0	2,702,713	2,597,389	2,705,998	3,285
County Environment & Education	1,183,352	0	1,183,352	1,299,871	1,245,871	62,519
Roads & Transportation	4,725,198	0	4,725,198	4,571,458	4,742,218	17,020
Governmental Services to Residents	477,758	0	477,758	569,712	547,267	69,509
Administrative Services	1,016,801	0	1,016,801	1,154,652	1,058,835	42,034
Non-Program	5,740	0	5,740	7,400	7,324	1,584
Debt Service	355,425	0	355,425	355,425	355,425	0
Capital Projects	804,345	0	804,345	832,100	832,100	27,755
Total Disbursements	14,310,989	0	14,310,989	14,465,921	14,639,181	328,192
Excess (Deficiency) of Receipts Over (Under) Disbursements	25,750	0	25,750	(750,401)	(270,871)	296,621
Other Financing Services, Net	17,804	0	17,804	0	0	17,804
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	43,554	0	43,554	(750,401)	(270,871)	314,425
Balance Beginning of Year	2,797,959	6,336	2,791,623	2,119,312	2,791,602	21
Balance End of Year	\$2,841,513	\$6,336	\$2,835,177	\$1,368,911	\$2,520,731	\$314,446

See Accompanying Independent Auditors' Report

FAYETTE COUNTY
West Union, Iowa

BUDGETARY COMPARISON SCHEDULE --
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2008

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$14,336,739	\$(36,576)	\$14,300,163
Expenditures	14,310,989	677,429	14,988,418
Net	25,750	(714,005)	(688,255)
Other Financing Sources	17,804	0	17,804
Beginning Fund Balances	2,797,959	207,307	3,005,266
Increase in Reserve For: Inventories	0	153,316	153,316
Ending Fund Balances	\$2,841,513	\$(353,382)	\$2,488,131

See Accompanying Independent Auditors' Report

**Fayette County
West Union, Iowa**

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$173,260. This budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted, however, disbursements in certain departments exceeded amounts appropriated.

Schedule 1

Sheriff's Forfeiture	DARE	Canine	Commissary Profit	Drainage Districts	Conservation Land Acquisition	Gilbertson	Total
\$2,305	\$439	\$1,672	\$352	\$6,336	\$72,285	\$52,016	\$234,653
0	0	0	642	0	0	0	965
0	0	0	0	0	0	0	140
0	0	0	0	0	0	361	361
\$2,305	\$439	\$1,672	\$994	\$6,336	\$72,285	\$52,377	\$236,119
\$0	\$0	\$593	\$1,708	\$0	\$20	\$3,437	\$5,803
2,305	439	1,079	(714)	6,336	72,265	48,940	230,316
\$2,305	\$439	\$1,672	\$994	\$6,336	\$72,285	\$52,377	\$236,119

Schedule 2

Sheriff's Forfeiture	DARE	Canine	Commissary Profit	Drainage Districts	Conservation Land Acquisition	Gilbertson	Total
\$0	\$0	\$0	\$0	\$0	\$0	\$21,262	\$38,147
0	0	0	0	0	0	10,947	15,238
0	0	0	41,035	0	10,978	732	54,445
180	901	2,790	8,326	0	23,422	1,792	37,787
180	901	2,790	49,361	0	34,400	34,733	145,617
0	1,001	4,149	54,160	0	0	0	59,849
0	0	0	0	0	0	28,415	28,415
0	0	0	0	0	46,536	0	53,909
0	1,001	4,149	54,160	0	46,536	28,415	142,173
180	(100)	(1,359)	(4,799)	0	(12,136)	6,318	3,444
2,125	539	2,438	4,085	6,336	84,401	42,622	226,872
\$2,305	\$439	\$1,079	\$(714)	\$6,336	\$72,265	\$48,940	\$230,316

Schedule 3

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$8,779 0	\$71,565 0	\$5,373 0	\$5,210 0	\$359,282 0	\$290,565 0	\$993,268 335,907
2 423,223 0 0	72 3,716,042 0 0	0 274,541 0 0	0 0 0 0	0 0 0 0	0 171,005 37,448 320	126 15,148,462 37,691 320
<u>\$432,004</u>	<u>\$3,787,679</u>	<u>\$279,914</u>	<u>\$5,210</u>	<u>\$359,282</u>	<u>\$499,338</u>	<u>\$16,515,774</u>
\$0 0 432,004 0 0	\$0 0 3,787,679 0 0	\$0 0 279,914 0 0	\$0 0 5,210 0 0	\$0 0 359,282 0 0	\$18,463 7,588 452,793 17,426 3,068	\$19,421 13,285 16,107,497 352,894 22,677
<u>\$432,004</u>	<u>\$3,787,679</u>	<u>\$279,914</u>	<u>\$5,210</u>	<u>\$359,282</u>	<u>\$499,338</u>	<u>\$16,515,774</u>

Schedule 4

Community Colleges	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$443,853	\$3,672,944	\$269,549	\$7,163	\$352,946	\$486,794	\$16,142,789
439,104	3,862,533	283,486	0	0	177,630	15,701,334
0	0	0	0	0	126,144	126,144
29,040	243,606	17,328	1,501	0	12,271	1,005,204
0	0	0	0	93,896	0	93,896
0	0	0	0	0	0	379,726
0	0	0	0	0	4,291	4,291
0	0	0	0	4,536,211	0	4,536,211
0	0	0	58,732	0	0	58,732
0	0	0	0	0	192,292	526,549
0	0	0	0	0	121,776	122,382
468,144	4,106,139	300,814	60,233	4,630,107	634,404	22,554,469
0	0	0	0	180,182	0	398,752
479,993	3,991,404	290,449	62,186	4,443,589	430,996	21,269,843
0	0	0	0	0	190,864	512,889
479,993	3,991,404	290,449	62,186	4,623,771	621,860	22,181,484
\$432,004	\$3,787,679	\$279,914	\$5,210	\$359,282	\$499,338	\$16,515,774

Schedule 5

Modified Accrual Basis				
2004	2003	2002	2001	2000
\$5,493,685	\$5,107,226	\$4,574,459	\$4,168,049	\$4,181,969
67,632	53,612	53,322	50,574	54,065
5,442,011	5,664,850	5,084,488	5,658,027	5,939,022
10,878	13,715	7,670	6,350	8,245
884,792	530,343	391,664	362,300	304,087
36,395	67,301	163,119	307,749	305,623
318,134	386,408	310,797	302,974	262,450
<u>\$12,253,527</u>	<u>\$11,823,455</u>	<u>\$10,585,519</u>	<u>\$10,856,023</u>	<u>\$11,055,461</u>
\$2,276,495	\$2,171,440	\$1,797,555	\$1,626,159	\$1,467,242
490,076	490,642	483,477	453,240	404,503
1,998,575	1,736,300	1,719,738	1,604,760	1,455,915
1,208,766	1,354,060	1,578,895	1,021,274	1,266,108
3,867,734	3,948,329	4,327,550	4,497,788	4,333,150
433,422	419,276	365,967	349,098	364,764
874,104	1,108,297	890,472	872,784	914,783
5,881	8,324	38,426	7,416	13,425
349,305	348,024	271,533	0	0
531,894	2,522,122	2,950,955	917,272	426,385
<u>\$12,036,252</u>	<u>\$14,106,814</u>	<u>\$14,424,568</u>	<u>\$11,349,791</u>	<u>\$10,646,275</u>

FAYETTE COUNTY
West Union, Iowa

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for Food			
Stamp Program	10.561		\$12,829
U.S. Department of Justice:			
Iowa Office of Justice			
STOP Violence Against Women	16.588	VW-08-63A	9,731
Bulletproof Vest Partnership	16.607		2,485
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	2-06-HBRRS-020	113,832
		2-06-HBRRS-016	122,912
		2-07-HBRRS-003	71,757
			308,501
National Highway Traffic Safety Administration:			
Iowa Department of Public Safety:			
Traffic Safety Bureau:			
Safety Incentives to Prevent Operation of Motor			
Vehicles by Intoxicated Persons	20.605	08-410, Task 28	8,501
U.S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		13,911
Child Care Mandatory and Matching Funds of			
The Child Care and Development Fund	93.596		3,360
Foster Care – Title IV-E	93.658		8,052
Adoption Assistance	93.659		1,920
Expansion Title XXI	93.676		115
Medical Assistance Program	93.778		17,683
Social Services Block Grant	93.667		9,126
Social Services Block Grant	93.667		103,639
			112,765
Federal Emergency Management Agency:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management			
Division:			
Disaster Recovery – Public Assistance	97.036	DR-1518-IA	82,929
Emergency Management Performance Grant	97.042		18,088
Total			\$600,870

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Fayette County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report



Gardiner Thomsen
Certified Public Accountants

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

To the Officials of Fayette County
West Union, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fayette County, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated March 19, 2009. We conducted our audit in accordance with U.S generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fayette County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Fayette County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fayette County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Fayette County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Fayette County's financial statements that is more than inconsequential will not be prevented or detected by Fayette County's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Fayette County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08, II-B-08 and II-C-08 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fayette County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Fayette County's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the County's responses, we did not audit Fayette County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fayette County and other parties to whom Fayette County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Fayette County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

March 19, 2009

Gardiner Thompson, P.C.



Gardiner Thomsen
Certified Public Accountants

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Officials of Fayette County
West Union, Iowa

Compliance

We have audited the compliance of Fayette County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. Fayette County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Fayette County's management. Our responsibility is to express an opinion on Fayette County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fayette County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fayette County's compliance with those requirements.

In our opinion, Fayette County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Fayette County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Fayette County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fayette County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Fayette County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the County's responses, we did not audit Fayette County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fayette County and other parties to whom Fayette County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

March 19, 2009

Gardiner Thomsen, P.C.

**Fayette County
West Union, Iowa**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2008**

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (e) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (f) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (g) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (h) Fayette County did not qualify as a low risk auditee.

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

- II-A-08 SEGREGATION OF DUTIES - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the County officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances

Response– We have reviewed the procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the one individual will be separated and spread among the County Official, Deputy, and Clerk.

Conclusion – Response accepted.

**Fayette County
West Union, Iowa**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008**

Part II: Findings Related to the Financial Statements (Continued)

II-B-08 FINANCIAL REPORTING – During our audit, we identified material amounts of receivables, payables and capital assets not recorded or incorrectly recorded in the County's financial statements. Adjustments were subsequently made by the County to properly include these amounts in the financial statements.

Recommendation – The County should implement procedures to ensure all receivables, payables, and capital assets are identified and included in the County's financial statements.

Response– We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

II-C-08 PREPARATION OF FULL DISCLOSURE FINANCIAL STATEMENTS – Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by generally accepted accounting principles. Fayette County does not have the internal resources to prepare the full-disclosure financial statements required by GAAP for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance, to prepare reliable financial data, or accept the risk associated with this condition because of cost of other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles in preparing full-disclosure financial statement for external reporting purposes is difficult. However, we recommend that County officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than rely on external assistance.

Response – We recognize our limitations, however, it is not fiscally responsible to add additional staff at this time.

Conclusion – Response acknowledged.

INSTANCE OF NON-COMPLIANCE:

No matters were reported.

Fayette County
West Union, Iowa

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008

Part III: Findings and Questioned Costs For Federal Awards

INSTANCES OF NON-COMPLIANCE:

CFDA Number 20.205: Highway Planning and Construction
Pass-through Agency Numbers: 2-06-HBRRS-020, 2-06-HBRRS-016 and 2-07-HBRRS-003
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 20.205: Highway Planning and Construction
Pass-through Agency Numbers: 2-06-HBRRS-020, 2-06-HBRRS-016 and 2-07-HBRRS-003
U.S. Department of Transportation
Passed through the Iowa Department of Transportation

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-08 CERTIFIED BUDGET – Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted. However, disbursements in certain departments exceeded the amounts appropriated.

Recommendation – Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will watch department appropriations more closely and will award additional appropriations when necessary.

Conclusion – Response accepted.

Fayette County
West Union, Iowa

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting (Continued)

- IV-B-08 QUESTIONABLE EXPENDITURES – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

Paid to	Purpose	Amount
John Hintz	Pens, Hats and Jackets for Advertising	\$765
The Rec Room	Apparel for Advertising	\$777
Myron Corp.	Pens for Advertising	\$447

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – Veterans Affairs should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures, including requirements for proper documentation.

Response – Similar expenditures will continue to be made under the grant and overseen by Veterans Affairs.

Conclusion – Response acknowledged.

- IV-C-08 TRAVEL EXPENSE – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

- IV-D-08 BUSINESS TRANSACTIONS – The following business transactions between the County and County officials or employees were noted:

Name, Title and Business Connection	Description	Amount
Madonna Baumler, Treasurer's Office Baumler Implement Company, Inc. – Partially owned Madonna's Spouse	Parts & Repairs for Secondary Road Vehicles	\$32,088
Rod Marlatt, Conservation Director Fauser Energy Resources – Owned by Father in Law	Diesel fuel, tires, car parts	\$293,551
Carol Keune, Community Services Les Keune Dentinator – Brother in Law is Owner	Vehicle Maintenance	\$1,000

**Fayette County
West Union, Iowa**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008**

Part IV: Other Findings Related to Required Statutory Reporting (Continued)

In accordance with Chapter 331.342 of the Code of Iowa, the transactions over \$1,500 with Fauser Energy Resources and Baumler Implement Company Inc. do not appear to represent conflicts of interest as the goods & services purchased from Fauser Energy Resources were obtained through contracts that were competitively bid, in writing, publicly invited and opened and Madonna Baumler is not directly involved in acquiring the services from Baumler Implement Company Inc.

The transactions with Les Keune Dentinator do not appear to represent conflicts of interest as the total transactions were not in excess of \$1,500 allowed by Chapter 331.342 of the Code of Iowa.

- IV-E-08 BOND COVERAGE – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-08 BOARD MINUTES – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-08 DEPOSITS AND INVESTMENTS – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- IV-H-08 RESOURCE ENHANCEMENT AND PROTECTION CERTIFICATION – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-I-08 ECONOMIC DEVELOPMENT – During the year ended June 30, 2008, the County paid \$74,676 for economic development which appears to be an appropriate expenditure of public funds since the public benefits to be derived have been clearly documented.
- IV-J-08 COUNTY EXTENSION OFFICE – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County Operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2008 for the County Extension Office did not exceed the amount budgeted.

Fayette County
West Union, Iowa

Schedule of Findings (Continued)
Year Ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting: (Continued)

IV-K-08 FINANCIAL CONDITION – The Special Revenue Funds, Mental Health and Commissary Profit had deficit balances of \$131,627 and \$714, respectively at June 30, 2008.

Recommendation – The County should investigate alternatives to eliminate the deficit in the Mental Health and Commissary Profit Funds.

Response – Payables were added at the end of the year, creating an even larger deficit. We will watch our expenditures and payables more closely to avoid a deficit in the future.

Conclusion – Response accepted.